

INDIANA BOND BANK

(A Component Unit of the State of Indiana)

Financial Statements with
Supplementary Information

June 30, 2008 and 2007

KATZ, SAPPER & MILLER

Certified Public Accountants



INDIANA BOND BANK
(A COMPONENT UNIT OF THE STATE OF INDIANA)

Table of Contents

	Page(s)
Independent Auditors' Report	1
Management's Discussion and Analysis	2 – 7
Financial Statements:	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11 – 31
Other Supplementary Information:	
Supplemental Schedules of Net Assets Information by Program Type – June 30, 2008 and 2007	32 – 33
Supplemental Schedules of Revenues, Expenses and Changes in Net Assets Information by Program Type – Years ended June 30, 2008 and 2007	34 – 35

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Independent Auditors' Report

Board of Directors
of the Indiana Bond Bank

We have audited the accompanying statements of net assets of the Indiana Bond Bank (Bond Bank) as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indiana Bond Bank at June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Katz, Sapper & Miller, LLP
Indianapolis, Indiana
October 28, 2008

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Management's Discussion and Analysis

June 30, 2008

This section of the Indiana Bond Bank's (the "Bond Bank") annual financial report presents our discussion and analysis of the Bond Bank's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the Bond Bank's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- Bonds and notes payable issued during the year totaled \$2,137,145,000, including \$1,810,429,000 in advance funding notes.
- A new program providing funding for the advance purchase of natural gas by municipal utilities was initiated with a \$308,570,000 bond issue.
- Repayments of bonds and notes payable totaled \$1,670,369,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and notes, as well as, other supplementary information. The Bond Bank follows enterprise fund reporting; accordingly, the financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Bond Bank. These statements are presented in a manner similar to a private business.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the Bond Bank's financial status and the changes in financial status. The Statement of Net Assets includes all of the Bond Bank's assets, liabilities, and net assets. Assets and liabilities are classified as either current or noncurrent. The Statement of Revenues, Expenses and Changes in Net Assets reports all of the revenues and expenses during the time period. The Statement of Cash Flows reports the cash provided and used by operating activities as well as other cash sources and uses. The financial statements also include notes that explain and support the information in the statements and are followed by a section of supplementary information that further details the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets by program type.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Management's Discussion and Analysis

June 30, 2008

FINANCIAL ANALYSIS OF THE BOND BANK

The following table is a condensed summary of financial information as of and for the years ended June 30, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net assets			
Current assets	\$ 1,157,994,933	\$ 884,489,348	\$ 583,639,248
Noncurrent assets	1,801,367,284	1,581,486,955	1,683,943,674
Total assets	2,959,362,217	2,465,976,303	2,267,582,922
Current liabilities	1,158,567,372	872,708,561	577,526,138
Noncurrent liabilities	1,785,609,503	1,578,967,957	1,676,376,567
Total liabilities	2,944,176,875	2,451,676,518	2,253,902,705
Restricted for debt service	1,997,062	2,666,831	2,122,104
Unrestricted	13,188,280	11,632,954	11,558,113
Total net assets	\$ 15,185,342	\$ 14,299,785	\$ 13,680,217
Revenues, expenses and changes in net assets			
Operating revenues:			
Interest income	\$ 128,731,206	\$ 103,682,391	\$ 97,873,898
Acceptance and administration fees	260,687	360,576	393,091
Total operating revenues	128,991,893	104,042,967	98,266,989
Operating expenses:			
Interest	121,652,348	98,461,206	92,486,759
Amortization of debt issuance costs	4,870,504	3,927,428	4,152,394
General and administrative	2,199,233	1,581,747	1,216,152
Total operating expenses	128,722,085	103,970,381	97,855,305
Operating income	269,808	72,586	411,684
Nonoperating revenues	615,749	546,982	378,062
Change in net assets	885,557	619,568	789,746
Net assets – beginning of year	14,299,785	13,680,217	12,416,326
Elimination of State Revolving Fund	—	—	474,145
Net assets – end of year	\$ 15,185,342	\$ 14,299,785	\$ 13,680,217

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Management's Discussion and Analysis

June 30, 2008

Statement of Net Assets

The assets and liabilities and net assets increased by approximately \$493.4 million in 2008 from 2007. The increase in the current qualified obligations receivable resulted from a higher balance outstanding on the Advanced Funding Note Program. Similarly, the increase in the current bonds and notes payable was due to a higher note payable on the Advanced Funding Note Program. The increase in the noncurrent qualified obligations receivable resulted from an increase of obligations receivable from the Prepaid Gas Program. Similarly, the increase in noncurrent bonds and notes payable was due to the new note payable on the Prepaid Gas Program. Included in the other current assets are cash and cash equivalents, accounts receivable and accrued interest receivable. Accrued interest payable and accounts payable are included in other current liabilities as well.

Statement of Net Assets Reconciliation - 2008

Total Assets as of June 30, 2007		\$ 2,465,976,303
Increase in current qualified obligations receivable	\$ 281,156,680	
Decrease in other current assets	(7,651,095)	
Increase in noncurrent qualified obligations receivable	198,416,968	
Increase in other noncurrent assets	<u>21,463,361</u>	
Total increase in assets		<u>493,385,914</u>
Total Assets as of June 30, 2008		\$ <u>2,959,362,217</u>
Total Liabilities and Net Assets as of June 30, 2007		\$ 2,465,976,303
Increase in net assets	\$ 885,557	
Increase in current bonds and notes payable	260,135,431	
Decrease in other current liabilities	25,723,380	
Increase in noncurrent bonds and notes payable	206,640,819	
Increase in other noncurrent liabilities	<u>727</u>	
Total increase in liabilities and net assets		<u>493,385,914</u>
Total Liabilities and Net Assets as of June 30, 2008		\$ <u>2,959,362,217</u>

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Management's Discussion and Analysis

June 30, 2008

The assets and liabilities and net assets increased by approximately \$198.4 million in 2007 from 2006. The increase in the current qualified obligations receivable resulted from a higher balance outstanding on the Advanced Funding Note Program. Similarly, the increase in the current bonds and notes payable was due to a higher note payable on the Advanced Funding Note Program. The decrease in the noncurrent qualified obligations receivable resulted from a reduction of obligations receivable from the School Severance Program. Similarly, the decrease in noncurrent bonds and notes payable was due to a lower note payable on the School Severance Program. Included in the other current assets are cash and cash equivalents, accounts receivable and accrued interest receivable. Accrued interest payable and accounts payable are included in other current liabilities as well.

Statement of Net Assets Reconciliation - 2007

Total Assets as of June 30, 2006		\$ 2,267,582,922
Increase in current qualified obligations receivable	\$ 325,687,368	
Decrease in other current assets	(24,837,268)	
Decrease in noncurrent qualified obligations receivable	(85,159,539)	
Decrease in other noncurrent assets	<u>(17,297,180)</u>	
Total increase in assets		<u>198,393,381</u>
Total Assets as of June 30, 2007		<u>\$ 2,465,976,303</u>
Total Liabilities and Net Assets as of June 30, 2006		\$ 2,267,582,922
Increase in net assets	\$ 619,568	
Increase in current bonds and notes payable	292,205,957	
Increase in other current liabilities	2,976,466	
Decrease in noncurrent bonds and notes payable	(97,381,303)	
Decrease in other noncurrent liabilities	<u>(27,307)</u>	
Total increase in liabilities and net assets		<u>198,393,381</u>
Total Liabilities and Net Assets as of June 30, 2007		<u>\$ 2,465,976,303</u>

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Management's Discussion and Analysis

June 30, 2008

Operating revenues consist of interest income earned on qualified obligations receivable and the related long-term investments in guaranteed investment contracts. The operating interest income for the year was 4.6% for 2008, 4.4% for 2007 and 4.7% for 2006 of the related investments. Also included in operating revenues are acceptance and administration fees paid by qualified entities to the Bond Bank's operating program. These fees decreased approximately \$100,000 in 2008, decreased \$33,000 in 2007 and decreased \$688,000 in 2006.

Operating expenses include interest expense on bonds and notes payable. Interest expense for the year represented 4.2% for 2008, 4.0% for 2007 and 4.2% for 2006 of the related bonds and notes payable balance. Also included in operating expenses is the amortization of debt issuance costs and general and administrative expenses such as management fees and arbitrage expense, as well as, expenses for the operating program such as professional fees, payroll and payroll related expenses.

Net assets in 2008 increased in total approximately \$886,000 from 2007. Net assets restricted for debt service decreased approximately \$670,000 and unrestricted net assets increased approximately \$1,555,000. In comparison, net assets for 2007 increased approximately \$620,000 over 2006. Net assets restricted for debt service increased approximately \$545,000 and unrestricted net assets increased approximately \$75,000.

DEBT ADMINISTRATION

Below is a listing of the amount of debt issued by program for the fiscal years ended June 30, 2008, 2007 and 2006:

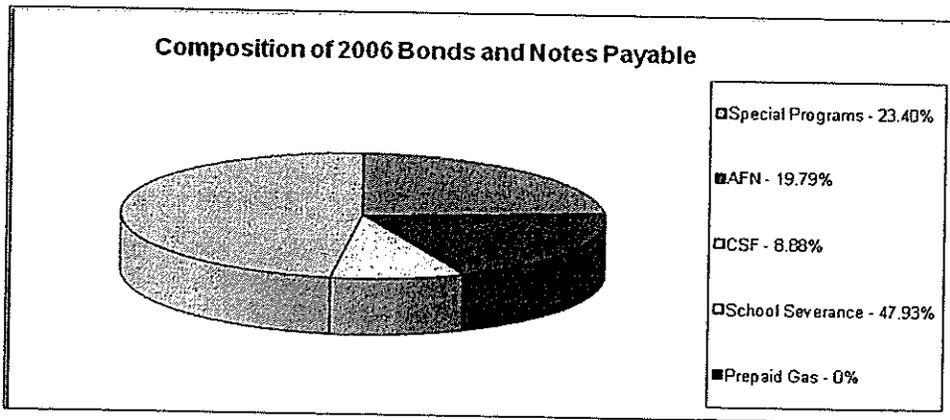
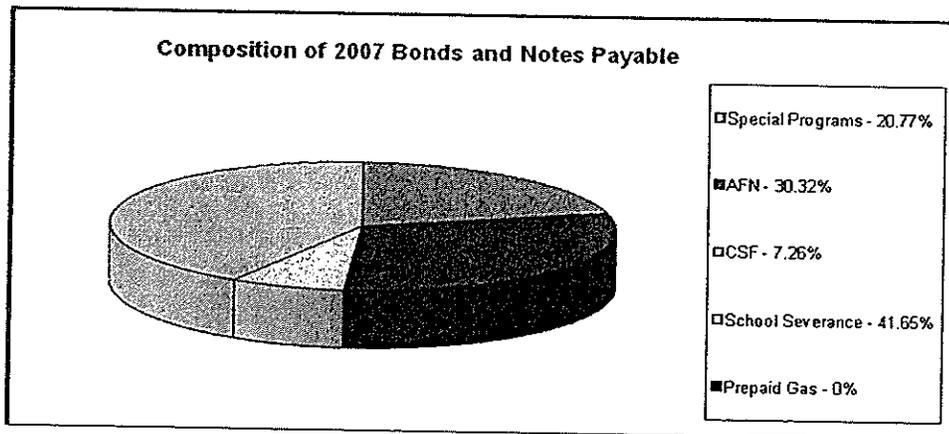
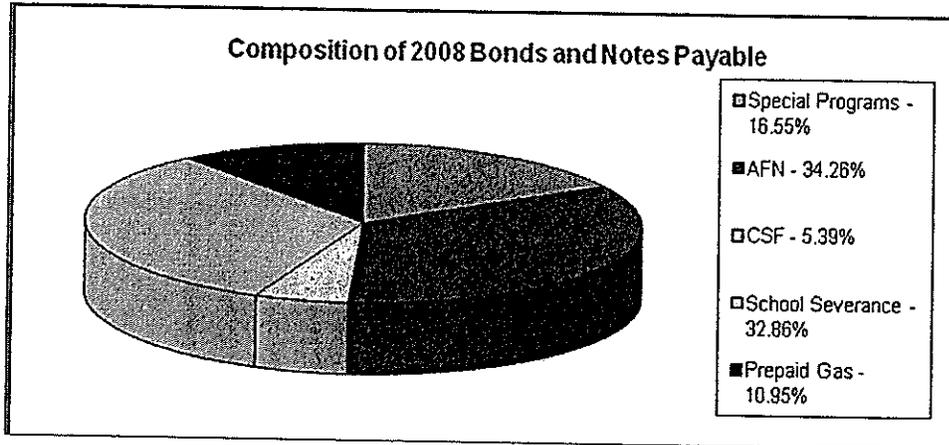
<u>Program</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Special Program	\$10,500,000	\$58,900,000	\$87,035,000
Advance Funding Program	1,810,429,000	970,740,000	435,835,000
School Severance Program	-	-	179,335,000
Prepaid Gas Program	308,570,000	-	-

On the following page are three graphs depicting the composition of bonds and notes payable. The graph on the top details the composition of bonds and notes payable by program for 2008, the graph in the middle depicts 2007 and the graph on the bottom shows 2006. The composition by program has changed due to the new bonds issued during each of the years.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Management's Discussion and Analysis

June 30, 2008



The Bond Bank's bond and note issues are rated A+ to AAA by the national rating agencies. The ratings are based on the financing program structure.

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Statements of Net Assets

June 30, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 59,756,437	\$ 66,056,019
Qualified obligations receivable	1,068,689,201	787,532,521
Accrued interest receivable	29,549,295	30,900,808
Total current assets	<u>1,157,994,933</u>	<u>884,489,348</u>
Noncurrent assets:		
Investments, at fair value	42,331,324	21,940,274
Qualified obligations receivable, net of current portion	1,736,314,770	1,537,897,802
Deferred debt issuance costs, net of accumulated amortization of \$17,428,875 in 2008 and \$12,855,887 in 2007	22,721,190	21,648,879
Total noncurrent assets	<u>1,801,367,284</u>	<u>1,581,486,955</u>
Total assets	<u>2,959,362,217</u>	<u>2,465,976,303</u>
Liabilities		
Current liabilities:		
Bonds and notes payable	1,089,490,000	829,354,569
Accrued interest payable	44,170,255	42,884,925
Funds held for qualified entities	24,159,925	—
Accounts payable	747,192	469,067
Total current liabilities	<u>1,158,567,372</u>	<u>872,708,561</u>
Noncurrent liabilities:		
Bonds and notes payable, net of current portion	1,785,115,160	1,578,474,341
Deferred revenues	494,343	493,616
Total noncurrent liabilities	<u>1,785,609,503</u>	<u>1,578,967,957</u>
Total liabilities	<u>2,944,176,875</u>	<u>2,451,676,518</u>
Net Assets		
Restricted for debt service	1,997,062	2,666,831
Unrestricted	<u>13,188,280</u>	<u>11,632,954</u>
Total net assets	<u>\$ 15,185,342</u>	<u>\$ 14,299,785</u>

See accompanying notes to financial statements.

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Interest income	\$ 128,731,206	\$ 103,682,391
Acceptance and administration fees	<u>260,687</u>	<u>360,576</u>
Total operating revenues	<u>128,991,893</u>	<u>104,042,967</u>
Operating expenses:		
Interest	121,652,348	98,461,206
Amortization of debt issuance costs	4,870,504	3,927,428
General and administrative	<u>2,199,233</u>	<u>1,581,747</u>
Total operating expenses	<u>128,722,085</u>	<u>103,970,381</u>
Operating income	<u>269,808</u>	<u>72,586</u>
Nonoperating revenues		
Interest income on investments	<u>615,749</u>	<u>546,982</u>
Total nonoperating revenues	<u>615,749</u>	<u>546,982</u>
Change in net assets	885,557	619,568
Net assets, beginning of year	<u>14,299,785</u>	<u>13,680,217</u>
Net assets, end of year	<u>\$ 15,185,342</u>	<u>\$ 14,299,785</u>

See accompanying notes to financial statements.

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from interest, service fees and principal on program loans	\$ 130,344,123	\$ 102,385,021
Cash payments for loaned amounts	(121,580,634)	(95,993,477)
Cash payments to suppliers and employees	(707,492)	(1,073,010)
Net cash provided by operating activities	8,055,997	5,318,534
Cash flows from non-capital financing activities:		
Proceeds from debt issuances	2,137,145,270	1,033,836,276
Debt issuance costs paid	(5,942,817)	(3,181,511)
Repayment of bonds and notes payable	(1,670,369,017)	(838,655,000)
Net cash provided by non-capital financing activities	460,833,436	191,999,765
Cash flows from investing activities:		
Purchases of investments	(894,087,429)	(440,409,094)
Purchases of qualified obligations receivable	(2,014,918,536)	(1,026,773,266)
Interest received on investments	615,749	546,982
Maturities of investments	873,696,388	456,119,106
Maturities of qualified obligations receivable	1,559,504,813	786,730,066
Net cash used by investing activities	(475,189,015)	(223,786,206)
Net decrease in cash and cash equivalents	(6,299,582)	(26,467,907)
Cash and cash equivalents, beginning of year	66,056,019	92,523,926
Cash and cash equivalents, end of year	\$ 59,756,437	\$ 66,056,019
Supplemental disclosure of cash flow information:		
Interest received during the year	\$ 130,082,709	\$ 101,770,697
Interest paid during the year	120,367,018	95,287,860
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 269,808	\$ 72,586
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of debt issuance costs	4,870,504	3,927,428
Changes in certain assets and liabilities:		
Accounts receivable	—	28,978
Accrued interest receivable	1,351,503	(1,659,617)
Accrued interest payable	1,285,330	2,720,899
Accounts payable	278,125	255,567
Deferred revenues	727	(27,307)
Net cash provided by operating activities	\$ 8,055,997	\$ 5,318,534

See accompanying notes to financial statements.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

(1) **Summary of Significant Accounting Policies**

Organization

The Indiana Bond Bank (the Bond Bank), a component unit of the State of Indiana, was created by Senate Enrolled Act No. 97 (as amended) (the Bond Bank Act) of the Indiana General Assembly on July 1, 1984. The Bond Bank is an instrumentality of the State of Indiana but is not a State agency and has no taxing power. It has separate corporate and sovereign capacity and its Board of Directors is composed of the Treasurer of the State (who serves as Chairman of the Board, ex officio), the Director of Public Finance (who serves as director, ex officio) and five directors appointed by the Governor. Effective May 1, 2005, Senate Enrolled Act 578 changed the Board of Directors membership to include the Director of Public Finance and to remove from the Board of Directors, the Director of the Department of Financial Institutions. The Bond Bank has no oversight authority over any other entity.

The Bond Bank is authorized to buy and sell securities (see Note 4 for statutory limitations) for the purpose of providing funds to Indiana qualified entities, as defined under the Bond Bank Act. Accordingly, the Bond Bank enables qualified entities to issue debt at a lower cost of borrowing and on more favorable terms than would be possible by financing on their own. Certain financing agreements specify that any residual cash remaining at maturity or refinancing of a series is the property of the Bond Bank.

To achieve its purpose, the Bond Bank operates the following programs:

- *Special Program*—Bonds issued to assist qualified entities with various long-term financing needs, primarily expansion of water and sewer systems.
- *Advance Funding Program*—Notes issued to provide qualified entities with short-term cash flow financing during the periods of time prior to the semi-annual receipt of property taxes.
- *Common School Fund Program*—Bonds issued to purchase outstanding advancements made from the State's constitutionally established Common School Fund to finance technology or construction costs. The proceeds replenish the Fund's balance, allowing the Indiana Department of Education to provide further financial assistance for Indiana school corporations.
- *School Building Program*—Bonds issued to assist qualified entities with financing for school building construction, renovation and improvement projects.
- *School Severance Program*—Bonds issued to assist qualified entities with financing for contractual retirement or severance liabilities.
- *Year End Warrant Assistance Program*—Notes issued to assist Indiana political subdivisions with financing for continued cash flow deficits at year end. These bonds were issued to fund outstanding amounts from the Advance Funding and Midyear Programs.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

- *Hoosier Equipment Lease Purchase Program*—Bonds issued to assist qualified entities in obtaining low cost lease financing for certain vehicle and equipment purchases. The leases and related obligations are not reflected on the Bond Bank's financial statements as these are assigned to a bank.
- *Prepaid Gas Funding Program*—Bonds issued to allow qualified entities a mechanism for financing the prepayment of supplies of natural gas to be delivered over time.

Basis of Presentation

The financial statements of the Bond Bank have been prepared on the accrual basis of accounting and using the economic resources management focus. Accordingly, the Bond Bank recognizes revenue in the period earned and expenses in the period incurred. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

In accordance with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Bond Bank has applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As permitted by GASB No. 20, the Bond Bank has elected not to comply with the FASB Statements and Interpretations issued subsequent to November 30, 1989.

Federal Income Taxes

The Bond Bank is exempt from federal income taxes under Internal Revenue Code Section 115.

Investments

Investments are recorded at fair value, based on quoted market prices of the investment or similar investments. For investments at June 30, 2008 and 2007, market approximates cost. Changes in the fair value of investments are included in the statement of revenues, expenses and changes in net assets. The calculation of realized gains or losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in prior year(s) and the current year.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Cash Equivalents

The Bond Bank considers all investments in commercial paper, certificates of deposit, repurchase agreements, passbook savings and money market deposits with original maturities of three months or less to be cash equivalents.

Debt Issuance Costs

Costs associated with issuing debt, including original issue discounts and premiums, are deferred and amortized over the life of the respective debt issue on a basis that approximates a constant effective interest rate.

Deferred Revenues

Cash flows for certain issues are not spread evenly over the respective lives of the issues. To recognize the economic structure of these issues, certain revenues estimated to be earned through maturity of the related issue is recognized ratably from period to period. The Bond Bank receives acceptance and administration fees from qualified entities in connection with their various programs.

Defeasance of Debt

The Bond Bank considers debt to be defeased when cash or other assets are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on a specific obligation. The related liability and assets held in trust for the related bonds are removed from the financial statements. See Note 4 for outstanding principal balances on defeased debt outstanding.

Capital Assets

Capital assets are recorded at historical cost. Depreciation is computed using the straight-line method over the estimated lives of the assets.

Net Assets

The Bond Bank's resources are classified for accounting and financial reporting purposes into the following net asset categories:

- *Invested in Capital Assets*—resources resulting from capital acquisition, net of accumulated depreciation.
- *Restricted*—net assets subject to externally imposed stipulations as to use. These net assets are restricted under the related program's bond indentures.
- *Unrestricted*—net assets which are available for the use of the Bond Bank.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Operating and Nonoperating Revenues

Revenues are classified as either operating or nonoperating. Operating revenues consist of interest income earned on qualified obligations receivable and the related investments in guaranteed investment contracts and acceptance and administration fees paid by qualified entities to the Bond Bank's operating program. All other items are considered non-operating.

(2) Cash and Investments

The Bond Bank Act permits funds to be invested as provided by resolutions of the Board of Directors or trust indentures executed by the Bond Bank. In addition to authorizing investments in qualified entities, these resolutions and trust indentures have authorized the Bond Bank to invest in obligations of the U.S. Treasury, U.S. agencies and secured and unsecured investment agreements. The Bond Bank has also been authorized to invest in commercial paper, certificates of deposit, repurchase agreements, passbook savings and money market deposit accounts.

The Bond Bank's cash and investments at June 30, 2008 are summarized as follows:

	Cost	Fair value
U.S. government agency obligations	\$ 10,016,965	\$ 10,016,965
Money market funds	45,829,014	45,829,014
Investment agreements with banks	42,331,324	42,331,324
Cash	3,910,458	3,910,458
Total cash and investments	\$ 102,087,761	\$ 102,087,761

The Bond Bank's cash and investments at June 30, 2007 are summarized as follows:

	Cost	Fair value
U.S. government agency obligations	\$ 9,498,059	\$ 9,498,059
Money market funds	52,863,328	52,863,328
Investment agreements with banks	21,940,274	21,940,274
Cash	3,694,632	3,694,632
Total cash and investments	\$ 87,996,293	\$ 87,996,293

The above investments are restricted to repayment of bonds and notes payable issued under the respective programs (see Note 4). Funds deposited under investment agreements with banks and insurance companies earn a fixed interest rate and generally expire upon extinguishment of the debt issues to which they relate.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

The Bond Bank's cash is insured in full by the combination of Federal Deposit Insurance Fund (FDIC) and the Indiana Public Deposit Insurance Fund. Funds deposited under investment agreements with banks and insurance companies are unsecured.

As of June 30, 2008, the Bond Bank had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Government obligations	\$ 10,016,965	\$ 5,220,999	\$ 4,795,966	\$ -	\$ -
Money market funds	45,829,014	45,829,014	-	-	-
Guaranteed investment contracts	42,331,324	3,128,495	635,520	3,421,465	35,145,844
Totals	\$ 98,177,303	\$ 54,178,508	\$ 5,431,486	\$ 3,421,465	\$ 35,145,844

Credit Risk Disclosure

The following table provides information on the credit ratings associated with the Bond Bank's investments:

<u>Credit Ratings</u>	<u>S & P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Fair Value</u>
Government obligations	AAA	AAA	Aaa	\$ 10,016,965
Money market funds	AAA	AAA	Aaa	45,829,014
Guaranteed investment contracts				
Aegon	Unrated	Unrated	Aa1	24,159,924
Bayern LB	A	BBB	Aaa	6,594,812
BNY Trust Co of Missouri	Unrated	Unrated	B+	1,235,000
FSA Capital Management	AAA	AAA	Unrated	12,805
GE Capital Corp	Unrated	Unrated	Aaa	635,520
MBIA, Inc	A-	Unrated	Baa2	3,179,134
Natixix Funding Corp	Unrated	A+	Unrated	5,298,869
West LB	A-	Unrated	Unrated	1,215,260
Total Rated Investments				\$ 98,177,303

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Concentration of Credit Risk

There are no limits on the amount that may be invested in any one issuer. The following table shows investment issuers that represent 5% or more of the total investment at June 30, 2008:

Fidelity Institutional US Government Portfolio Money Market Fund	29 %
Aegon GIC	25 %
Columbia Treasury Reserves Money Market Fund	14 %
Bayern LB GIC	7 %
Natixis Funding Corp GIC	5%

(3) Qualified Obligations Receivable

All of the qualified obligations receivable are held in safekeeping by trustees, are registered in the Bond Bank's name and are uninsured. All purchases of qualified obligations are authorized by the Board of Directors. Prior to being presented to the Board of Directors, an evaluation of each purchase is made by Bond Bank management and independent consultants. Repayment of these obligations by the qualified entities is funded by many sources, including property tax revenues and user fees.

In the event of default, the Bond Bank Act provides that certain qualified entities can, to the extent permitted by law, be required to levy tax or the Bond Bank may receive state funding to which the qualified entities are otherwise entitled. No qualified entity has defaulted on its obligation to the Bond Bank since inception of Bond Bank operations.

At June 30, 2008 and 2007, qualified obligations receivable included \$74,320,000 and \$76,140,000, respectively, which is to be repaid from incremental property tax revenues. The ability of the qualified entities to realize these incremental property tax revenues is dependent upon certain economic developments occurring in the future. Furthermore, the Bond Bank does not have the remedies, as described above, available should the qualified entities default due to the realization of insufficient incremental property tax revenues. Management, however, believes the amount of these obligations to be fully collectible. Additionally, the Bond Bank executed letter of credit arrangements with a bank to further secure the related indebtedness to the Bond Bank bondholders (see Note 4 and Note 5).

As of June 30, 2008 and 2007, the Bond Bank's Board of Directors authorized the purchase and subsequent leasing of equipment totaling approximately \$5,944,215 and \$10,087,197, respectively, through the Hoosier Equipment Lease Purchase Program. These lease receivables and related obligations are not reflected in the financial statements as the leases and related obligations have been assigned to a bank and the Bond Bank has been legally released from the obligations.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

(4) Bonds and Notes Payable

Bonds and notes payable at June 30 consist of the following:

Special Program Bonds:	2008	2007
Series 1997 C	\$	\$
Series 1997 D	—	4,025,000
Series 1998 A	—	4,670,000
Series 1998 A	3,335,000	4,195,000
Series 2000 A	4,905,000	5,130,000
Series 2001 A	4,600,000	5,585,000
Series 2001 A	4,260,000	4,575,000
Series 2001 B	11,395,000	12,905,000
Series 2002 A	6,445,000	7,010,000
Series 2002 B	36,715,000	38,040,000
Series 2002 C	—	5,515,000
Series 2002 D	1,625,000	2,100,000
Series 2002E	5,780,000	7,075,000
Series 2003 A	8,880,000	9,155,000
Series 2003 B	38,705,000	39,555,000
Series 2003 C	6,910,000	7,270,000
	6,295,000	7,130,000

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

(4) Bonds and Notes Payable (Cont.):

Special Program Bonds (Cont.):

Series 2003 D	(rates vary from 3.00% to 5.00% with maturities from August 1, 2009 to February 1, 2025)	\$ 27,515,000	\$ 27,515,000
Series 2003 E	(rates vary from 3.00% to 5.00% with maturities from September 1, 2008 to September 1, 2025)	34,440,000	35,000,000
Series 2003 F	(rates vary from 2.75% to 4.75% with maturities from August 1, 2008 to February 1, 2024)	11,095,000	12,440,000
Series 2004 A	(rates vary from 2.50% to 5.00% with maturities from August 1, 2008 to February 1, 2024)	15,190,000	15,870,000
Series 2004 B	(rates vary from 3.50% to 5.00% with maturities from February 1, 2009 to February 1, 2023)	14,840,000	15,675,000
Series 2004 C	(rates vary from 3.50% to 5.38% with maturities from August 1, 2008 to February 1, 2031)	33,795,000	34,610,000
Series 2004 D	(rates vary from 3.00% to 5.00% with maturities from February 1, 2009 to February 1, 2022)	26,230,000	27,630,000
Series 2005 A	(rates vary from 2.50% to 4.50% with maturities from August 1, 2008 to February 1, 2027)	13,130,000	13,775,000
Series 2005 B	(rates vary from 3.75% to 4.15% with maturities from February 15, 2009 to February 15, 2020)	7,935,000	8,445,000
Series 2005 C	(rates vary from 3.50% to 4.25% with maturities from June 1, 2009 to June 1, 2026)	10,385,000	10,780,000
Series 2005 D	(rates vary from 3.75% to 5.00% with maturities from August 1, 2008 to August 1, 2028)	4,375,000	4,505,000
Series 2006 B-1	(rates vary from 3.70% to 5.00% with maturities from September 1, 2008 to March 1, 2027)	12,155,000	12,400,000
Series 2006 B-2	(rates vary from 5.50% to 5.80% with maturities from August 1, 2008 to September 1, 2017)	2,890,000	2,890,000
Series 2006 A (Ref)	(rates vary from 4.00% to 5.13% with maturities from August 1, 2008 to September 1, 2024)	24,100,000	25,130,000
Series 2006 C	(rates vary from 4.25% to 5.00% with maturities from February 1, 2009 to February 1, 2023)	20,660,000	20,660,000
Series 2006 D	(rates vary from 4.00% to 4.25% with maturities from August 1, 2008 to February 1, 2027)	12,045,000	13,110,000
Series 2007 A	(rates vary from 5.00% to 5.25% with maturities from April 1, 2013 to April 1, 2030)	44,915,000	44,915,000
Series 2008A	(rate varies based on lowest available rate in interest period (weekly, monthly, quarterly, annually, or fixed) as selected by the qualified entity, not to exceed 10% per annum. Rate at June 30, 2008 was 2.71%, with maturities from February 1, 2011 to February 1, 2033)	10,500,000	—
Total Special Program Bonds		<u>466,045,000</u>	<u>489,285,000</u>

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

(4) Bonds and Notes Payable (Cont.):

Advance Funding Program Notes:

Series 2007 A	(interest rate of 4.25% matured on January 1, 2008)	\$ —	\$ 459,335,000
Series 2007 A	Midyear (interest rate of 4.50% matured on May 20, 2008)	—	267,710,000
Series 2007 A	Year End Assist (interest rate of 2.62%, maturing on September 4, 2008)	26,095,000	—
Series 2008 A	(interest rate of 3.00% maturing on January 30, 2009)	518,585,000	—
Series 2008 A	Midyear (interest rate of 3.00% maturing on May 5, 2009)	433,005,000	—
Total Advance Funding Program Notes		<u>977,685,000</u>	<u>727,045,000</u>

Common School Fund Bonds:

Series 1996 A	(interest rate of 5.75% with maturities from August 1, 2008 to August 1, 2013)	2,720,000	3,470,000
Series 1999 A	(interest rate of 5.00% with maturities from February 1, 2009 to February 1, 2014)	18,325,000	21,780,000
Series 2001	(interest rate of 5.00% with maturities from February 1, 2009 to February 1, 2019)	17,915,000	23,325,000
Series 2003 A and B	(rates vary from 2.50% to 5.00% with maturities from August 1, 2008 to February 1, 2020)	<u>108,445,000</u>	<u>117,190,000</u>
Total Common School Fund Bonds		<u>147,405,000</u>	<u>165,765,000</u>

School Severance Program Bonds:

Series 1	(rates vary from 5.34% to 6.30% with maturities from July 15, 2008 to January 15, 2018)	30,730,000	36,550,000
Series 2	(rates vary from 4.00% to 5.72% with maturities from July 15, 2008 to July 15, 2023)	25,925,000	27,520,000
Series 3	(rates vary from 4.11% to 5.85% with maturities from July 15, 2008 to January 15, 2023)	51,620,000	55,635,000
Series 4	(rates vary from 3.17% to 5.07% with maturities from July 15, 2008 to January 15, 2024)	39,745,000	42,400,000
Series 5A	(rates vary from 3.76% to 5.82% with maturities from July 15, 2008 to January 15, 2024)	143,720,000	154,865,000
Series 5B	(interest rate of 5.05% with maturities from July 15, 2008 to January 15, 2019)	12,210,000	13,020,000
Series 5C	(interest rate of 5.15% with maturities from July 15, 2008 to January 15, 2019)	3,220,000	3,435,000
Series 6A	(rates vary from 4.30% to 6.24% with maturities from July 15, 2008 to January 15, 2025)	138,265,000	146,810,000
Series 6B	(interest rate of 5.79% with maturities from July 15, 2008 to January 15, 2025)	13,445,000	13,855,000
Series 7A	(rates vary from 3.71 to 5.73% with maturities from July 15, 2008 to January 15, 2030)	92,190,000	97,845,000

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

(4) Bonds and Notes Payable (Cont.):

School Severance Program Bonds (Cont.):

Series 7B	(rates vary from 4.50% to 5.30% with maturities from July 15, 2008 to January 15, 2020)	\$ 11,065,000	\$ 11,745,000
Series 8A	(rates vary from 3.80% to 5.64% with maturities from July 15, 2008 to January 15, 2029)	118,060,000	125,140,000
Series 8B	(rates vary from 3.80% to 5.49% with maturities from July 15, 2008 to January 15, 2026)	59,770,000	62,120,000
Series 9	(rates vary from 3.81% to 5.53% with maturities from July 15, 2008 to January 15, 2026)	31,640,000	33,740,000
Series 10	(rates vary from 4.86% to 5.68% with maturities from July 15, 2008 to January 15, 2031)	55,720,000	56,830,000
Series 11	(rates vary from 5.44% to 6.20% with maturities from July 15, 2008 to January 15, 2029)	<u>117,375,000</u>	<u>121,670,000</u>
Total Taxable School Severance Bonds		<u>944,700,000</u>	<u>1,003,180,000</u>

Prepaid Gas Funding Program Bonds:

Series 2007 A and B

(2007 A Fixed Bonds rates vary from 5.00% to 5.25%, with maturities from October 15, 2008 to October 15, 2021. 2007 B-1 LIBOR Index Rate Bonds rates vary based on 67% of the Three-Month LIBOR Rate plus the per annum spread of 0.97%. Rate at June 30, 2008 was 2.70%, maturing on October 15, 2022. 2007 B-2 SIFMA Index Rate Bonds rates vary based on the SIFMA Municipal Swap Index plus the per annum spread of .48% for 2009, 0.50% for 2010 and 0.66% for 2022. Rate at June 30, 2008 was 2.03%, with maturities from October 15, 2009 to October 15, 2022. 2007 B-3 CPI Index Rate Bonds rates vary based on changes in the CPI Index. The rate at June 30, 2008 was 5.25%, with maturities from October 15, 2011 to October 15, 2015.)

<u>308,570,000</u>	—
<u>308,570,000</u>	—

Total Prepaid Gas Funding Program Bonds

Totals

2,844,405,000	2,385,275,000
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Add net unamortized premium

Less deferred charge on refunding

31,277,252	23,932,346
<u>(1,077,092)</u>	<u>(1,378,437)</u>

Total bonds and notes payable

2,874,605,160	2,407,828,909
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Less current portion

<u>(1,089,490,000)</u>	<u>(829,354,569)</u>
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Noncurrent portion of bonds and notes payable

<u>\$ 1,785,115,160</u>	<u>\$ 1,578,474,341</u>
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INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

2007 Interest Rate Swap Agreement – Prepaid Gas Program

Objective of the Interest Rate SWAP Agreement. In August 2007, in anticipation of issuing the Series 2007 B1, B2, and B3 Gas Prepayment Bonds and protecting, in part, the Bond Bank from the risk of any adverse change in interest rates on the Series 2007 Gas Prepayment Bonds, the Bond Bank entered into a Swap Agreement with JP Morgan to lock in a fixed interest rate.

The fixed rate entered into by the Bond Bank pursuant to the Swap Agreement was an off market rate providing the Bond Bank \$6,900,000 million in an upfront payment.

Terms for B1 (CPI Index). Under the Swap Agreement, the Bond Bank pays interest to JP Morgan on the notional amount set forth in the CPI Index Swap agreements at the fixed interest rate of 4.11% on a notional amount of \$17,080,000, 4.18% on a notional amount of \$16,920,000, 4.24% on a notional amount of \$16,665,000, 4.28% on a notional amount of \$16,930,000, and 4.34% on a notional amount of \$10,000,000, in exchange for which JP Morgan pays interest to the Bond Bank on notional amounts at a variable interest rate equal to the rate of change for a one-year period of the CPI index three months prior to the settlement date plus a spread of 1.31% on a notional amount of \$17,080,000, 1.34% on a notional amount of \$16,920,000, 1.37% on a notional amount of \$16,665,000, 1.38% on a notional amount of \$16,930,000, and 1.40% on a notional amount of \$10,000,000. The Swap's notional amount of \$77,595,000 at June 30, 2008 matches the variable rate bonds. The obligation began to bear interest on September 15, 2007, and each party is required to make payments, if any, to the other party under the 2007 Swap agreements, on the 15th of each month.

Fair Value (CPI Index). Because CPI Index interest rates have increased since execution of the Swap Agreement, the Swap had a positive fair value of \$3,501,050 at June 30, 2008. The Swap's positive fair value may be countered by an increase in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the current CPI Index for the month of June 2008. This method calculates the future net settlement payments required by the Swap, assuming that the current CPI index reflects the fair value of the Swap payments. These payments are then discounted using the current CPI index on the coupon due on the date of the future net settlement on the Swap.

Terms for B2 (SIFMA Municipal Swap Index). Under the Swap Agreement, the Bond Bank pays interest to JP Morgan on the notional amount set forth in the weekly SIFMA Municipal Index Swap agreements at the fixed interest rate of 4.02% on a notional amount of \$16,405,000, 4.09% on a notional amount of \$17,615,000, and 4.80% on a notional amount of \$15,690,000, in exchange for which JP Morgan pays interest to the Bond Bank on notional amounts at a variable interest rate equal to the weekly SIFMA Municipal Index Swap plus a spread of .48% on a notional amount of \$16,405,000, .50% on a notional amount of \$17,615,000, and .66% on a notional amount of \$15,690,000. The Swap's notional amount of \$49,710,000 at June 30, 2008 matches the variable rate bonds. The obligation began to bear interest on October 15, 2007, and each party is required to make payments, if any, to the other party under the 2007 Swap agreements, on the 15th of October, January, April, and July.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Fair Value (SIFMA Municipal Swap Index). Because SIFMA Municipal Swap Index interest rates have decreased since execution of the Swap Agreement, the Swap had a negative fair value of \$6,067,217 at June 30, 2008. The Swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the current weekly SIFMA Municipal Index Swap closest to June 30, 2008. This method calculates the future net settlement payments required by the Swap, assuming that the weekly SIFMA Municipal Index Swap closest to June 30, 2008 reflects the fair value of the Swap payments. These payments are then discounted using the current weekly SIFMA Municipal Index Swap closest to June 30, 2008 on the coupon due on the date of the future net settlement on the Swap.

Terms for B3 (LIBOR Index). Under the Swap Agreement, the Bond Bank pays interest to JP Morgan on the notional amount set forth in the three-month LIBOR agreements at the fixed interest rate of 4.73%, in exchange for which JP Morgan pays interest to the Bond Bank on notional amounts at a variable interest rate equal to 67% of the three-month LIBOR plus a spread of .97%. The Swap's notional amount of \$22,500,000 at June 30, 2008 matches the variable rate bonds. The obligation began to bear interest on October 15, 2007, and each party is required to make payments, if any, to the other party under the 2007 Swap agreements, on the 15th of October, January, April, and July.

Fair Value (LIBOR Index). Because LIBOR Index interest rates have decreased since execution of the Swap Agreement, the Swap had a negative fair value of \$3,843,420 at June 30, 2008. The Swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a higher synthetic interest rate. Because the coupons on the Bond Bank's variable-rate bond adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of the future net settlement on the Swap.

Credit Risk. As of June 30, 2008, the Bond Bank was not exposed to credit risk because the LIBOR and the SIFMA index swaps had a negative fair value, which counters the positive fair value of the CPI Index swap. However, should interest rates change and the fair value of the Swap becomes positive, the Bond Bank would be exposed to credit risk in the amount of the derivative's fair value.

The Swap counterparty, JP Morgan, was rated AA- by Fitch Ratings and Standard & Poor's and Aa2 by Moody's Investor Service as of June 30, 2008.

Termination Risk. At any time, the Bond Bank may terminate the Swap by providing at least a two-day written notice to JP Morgan. If at the time of termination the swap has a negative fair value, the Bond Bank would be liable to the Swap provider for a payment equal to the Swap's fair value.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Swap Payments and Associated Debt. As of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Variable-Rate Bonds (B1, CPI Index)				
Fiscal Year			Interest Rate	
Ending June 30	Principal	Interest	Swaps, Net	Total
2009	\$ -	\$ 3,274,444	\$ 134,718	\$ 3,409,162
2010	-	3,274,444	134,718	3,409,162
2011	-	3,274,444	134,718	3,409,162
2012	17,080,000	3,274,444	134,718	3,409,162
2013	16,920,000	2,572,456	115,930	2,688,386
2014	16,665,000	1,865,200	90,550	1,955,750
2015	16,930,000	1,158,604	60,553	1,219,157
2016	10,000,000	434,000	25,000	459,000
Total	\$ 77,595,000	\$ 19,128,036	\$ 830,905	\$ 19,958,941

Variable-Rate Bonds (B2, BMA Index)				
Fiscal Year			Interest Rate	
Ending June 30	Principal	Interest	Swaps, Net	Total
2009	\$ -	\$ 2,133,055	\$ 97,977	\$ 2,231,031
2010	16,405,000	2,133,055	97,977	2,231,031
2011	17,615,000	1,473,574	99,617	1,573,191
2012	-	753,120	92,571	845,691
2013	-	753,120	92,571	845,691
2014	-	753,120	92,571	845,691
2015	-	753,120	92,571	845,691
2016	-	753,120	92,571	845,691
2017	-	753,120	92,571	845,691
2018	-	753,120	92,571	845,691
2019	-	753,120	92,571	845,691
2020	-	753,120	92,571	845,691
2021	-	753,120	92,571	845,691
2022	-	753,120	92,571	845,691
2023	15,690,000	753,120	92,571	845,691
Total	\$ 49,710,000	\$ 14,777,123	\$ 1,406,422	\$ 16,183,545

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Variable-Rate Bonds (B3, LIBOR Index)				
Fiscal Year			Interest Rate	
Ending June 30	Principal	Interest	Swaps, Net	Total
2009	\$ -	\$ 1,064,250	\$ 38,250	\$ 1,102,500
2010	-	1,064,250	38,250	1,102,500
2011	-	1,064,250	38,250	1,102,500
2012	-	1,064,250	38,250	1,102,500
2013	-	1,064,250	38,250	1,102,500
2014	-	1,064,250	38,250	1,102,500
2015	-	1,064,250	38,250	1,102,500
2016	-	1,064,250	38,250	1,102,500
2017	-	1,064,250	38,250	1,102,500
2018	-	1,064,250	38,250	1,102,500
2019	-	1,064,250	38,250	1,102,500
2020	-	1,064,250	38,250	1,102,500
2021	-	1,064,250	38,250	1,102,500
2022	-	1,064,250	38,250	1,102,500
2023	22,500,000	1,064,250	38,250	1,102,500
Total	\$ 22,500,000	\$ 15,963,750	\$ 573,750	\$ 16,537,500

The bonds and notes payable listed above were issued under respective indentures of trust. Each indenture requires the maintenance of various trust accounts, and several of the bonds and notes payable require debt service reserve accounts. Assets held in debt service reserve accounts are included in investments and amounted to \$10,091,735 and \$10,989,442 at June 30, 2008 and 2007, respectively.

The faith, credit and taxing power of the State of Indiana or any political subdivision thereof are not pledged to the payment of principal and interest on these obligations. However, the following series of Bond Bank bonds were fully insured by a private insurer at June 30, 2008.

Special Program Bonds

Series 1998 A (payments from February 1, 2009 through February 1, 2017)

Series 2001 Refunding

Series 2001 B

Series 2002 A

Series 2002 C

Series 2002 D

Series 2002 E

Series 2003 A

Series 2003 B

Series 2003 C

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Series 2003 D
Series 2003 E
Series 2003 F
Series 2004 A
Series 2004 B
Series 2004 C
Series 2004 D
Series 2005 A
Series 2005 B
Series 2005 C
Series 2005 D
Series 2006 A Refunding
Series 2006 B
Series 2006 C
Series 2006 D
Series 2007 A Refunding
Common School Fund Bonds
Series 1996 A
Series 1999 A
Series 2001 A
Series 2003 A & B
Taxable School Severance Funding Bonds
Series 1
Series 2
Series 3
Series 4
Series 5 A, B & C
Series 6 A & B
Series 7 A & B
Series 8 A & B
Series 9
Series 10
Series 11

The Bond Bank is required under the trust indentures of certain series of Special Program Bonds to enter into letter of credit arrangements with banks in order to secure the indebtedness. The amounts eligible to be drawn and the renewal dates of these arrangements at June 30, 2008 are as follows:

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

The Special Program 2008A Bond is secured by a letter of credit in the amount of \$10,500,000 with Huntington National Bank. It has an annual commission fee equal to one and one quarter percent (1.25%) per annum of the maximum amount available to be drawn on the letter of credit and a one-time upfront fee in the amount of \$25,000. The letter of credit expires in 2013. S & P rated Huntington National Bank's credit rating as A-.

Additionally, the Bond Bank was required under the trust indentures of certain series of bonds and notes payable to enter into line of credit arrangements with banks in order to secure the indebtedness. These line of credit arrangements are renewable each year.

The amounts eligible to be drawn under these arrangements at June 30, 2008 are as follows:

Series	Eligible amount
Advance Funding Program, Series 2008 A	\$ 54,451,425
Advance Funding Program, Series 2008 A (Midyear)	38,970,450
Special Program Bonds, Series 2002 A	3,185,294
Special Program Bonds, Series 2002 C	394,000
Special Program Bonds, Series 2002 D	4,115,638
Special Program Bonds, Series 2002 E	895,613
Special Program Bonds, Series 2003 A	2,701,399
Special Program Bonds, Series 2003 B	802,606
Special Program Bonds, Series 2003 D	2,531,875
Special Program Bonds, Series 2003 F-1 & F-2	1,537,104
Special Program Bonds, Series 2004 A	1,354,712
Special Program Bonds, Series 2004 B	1,505,794
Special Program Bonds, Series 2004 C	2,514,999
Special Program Bonds, Series 2004 D	2,599,927
Special Program Bonds, Series 2005 A	1,212,444
Special Program Bonds, Series 2005 C	830,969
Special Program Bonds, Series 2005 D	329,062
Special Program Bonds, Series 2006 A (Ref)	2,186,637
Special Program Bonds, Series 2006 B-1	1,259,641
Special Program Bonds, Series 2006 C	2,081,120
Special Program Bonds, Series 2006 D	1,584,938
Special Program Bonds, Series 2007 A Ref	3,920,650
Special Program Bonds, Series 2008 A	10,500,000

In the event of a draw on either a letter or line of credit facility, each borrowing will bear an interest rate based upon a series of optional rates as specified in the particular agreement. No draws were made against any debt service reserve account, letter, or line of credit facility during the years ended June 30, 2008 or 2007.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Maturities of long-term debt and interest are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,089,490,000	\$ 114,334,690
2010	120,475,000	80,928,219
2011	126,200,000	75,878,294
2012	122,835,000	69,582,853
2013	124,450,000	63,827,229
2014-2018	589,145,000	222,514,476
2019-2023	491,550,000	97,223,154
2024-2028	142,760,000	25,652,162
2029-2033	37,500,000	4,001,695
	<u>2,844,405,000</u>	<u>\$753,942,772</u>
Add: Unamortized premium	31,277,252	
Less: Deferred charge	(1,077,092)	
	<u>\$2,874,605,160</u>	

Prior to July 1, 2008, the Bond Bank issued \$49,325,000 of debt on behalf of seventeen not-for-profit qualified water utilities. At June 30, 2008 and 2007, the balance outstanding for these qualified water utilities totaled \$22,981,090 and \$23,076,108, respectively. Under the provisions of these debt issues, the bonds are payable solely from the revenues generated by the qualified water utilities. This debt does not constitute a general or moral obligation of the Bond Bank nor are debt service reserve funds maintained for these debt issues. The Bond Bank is not obligated in any manner for repayment of the bonds. For these reasons, the Bond Bank has not recorded these debt issues and the related utilities' obligations in the accompanying financial statements.

The Bond Bank is restricted by statute (IC 5-1.5-4-1(c)) to limit its total outstanding debt to \$1,000,000,000. However, the statute allows for the exclusion of bonds and notes issued funding the refunding of bonds or notes, as well as bonds, notes, or other obligations that are not secured by a reserve fund as defined by IC 5-1.5-5. Accordingly, the debt involving not-for-profit water utilities discussed above is not included when computing the Bond Bank's available debt limit. In addition, certain debt recorded in the Bond Bank's financial statements is not included in such a computation due to the provisions described in the statute.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

A reconciliation of debt outstanding as reflected in the financial statements to the statutory debt limit is as follows:

Bonds and notes payable—face amount	\$	2,844,405,000
Less: Debt recorded which does not require reserve funds		<u>2,400,130,000</u>
Debt outstanding for statutory debt limit purposes at June 30, 2008		444,275,000
Available remaining debt limit for statutory purposes		<u>555,725,000</u>
Statutory debt limit	\$	<u>1,000,000,000</u>

Special Program Bonds Series 1985 A, 2000A, and 2002 D are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately \$91,225,000 and \$112,785,000 at June 30, 2008 and 2007, respectively.

During 2008, the Bond Bank issued Special Program Bonds Series 2008 A in the amount of \$10,500,000. A portion of the proceeds from the issue were used to refund Special Program Bonds Series 1997 D, which were outstanding in the amount of \$4,280,000, and a portion of the proceeds were used to refund Special Program Bonds Series 2002 B, which were outstanding in the amount of \$5,265,000. The cash flow difference between the debt service on the Special Program Bonds, Series 1997 D and 2002 B, and the new debt is \$955,000 and the economic gain is \$2,031.

During 2007, the Bond Bank issued Special Program Bonds Series 2007 A in the amount of \$44,915,000. The proceeds from the issue plus contributions from the underlying qualifying entity were used to partially refund Special Program Bonds Series 2002 D. The cash flow difference between the debt service on the Special Program Bonds, Series 2002 D and the new debt is \$4,308,207 and the economic gain is \$11,143,005.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

Changes in the Bond Bank's long-term liabilities are as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>	<u>Due within one year</u>
2008					
Bonds and notes payable	\$ 2,409,207,347	\$ 2,145,622,510	\$ 1,679,147,600	\$ 2,875,682,257	\$ 1,089,490,000
Less deferred amounts	<u>1,378,437</u>	<u>—</u>	<u>301,344</u>	<u>1,077,093</u>	<u>—</u>
	2,407,828,910	2,145,622,510	1,678,846,256	2,874,605,164	1,089,490,000
Deferred revenues	<u>493,616</u>	<u>2,032</u>	<u>1,304</u>	<u>494,344</u>	<u>—</u>
Total	<u>\$ 2,408,322,526</u>	<u>\$ 2,145,624,542</u>	<u>\$ 1,678,847,560</u>	<u>\$ 2,875,099,508</u>	<u>\$ 1,089,490,000</u>
2007					
Bonds and notes payable	\$ 2,214,971,055	\$ 1,039,197,312	\$ 844,961,020	\$ 2,409,207,347	\$ 829,354,569
Less deferred amounts	<u>1,966,799</u>	<u>—</u>	<u>588,362</u>	<u>1,378,437</u>	<u>—</u>
	2,213,004,256	1,039,197,312	844,372,658	2,407,828,910	829,354,569
Deferred Revenues	<u>520,923</u>	<u>—</u>	<u>27,307</u>	<u>493,616</u>	<u>—</u>
Total	<u>\$ 2,213,525,179</u>	<u>\$ 1,039,197,312</u>	<u>\$ 844,399,965</u>	<u>\$ 2,408,322,526</u>	<u>\$ 829,354,569</u>

(5) Concentrations of Credit

The Bond Bank has qualified obligations receivable in counties throughout the State of Indiana. The largest concentrations of such receivables are with qualified entities are as follows:

<u>County</u>	<u>Qualified Obligations Receivable</u>	<u>Concentration Percentage</u>
Marion	\$ 807,174,668	29%
Lake	194,661,545	7%
Hendricks	137,868,893	5%
St. Joseph	103,544,762	4%
Madison	94,904,350	3%

No other county has a concentration over 3.0% of the total qualified obligations receivable at June 30, 2008. Of these bonds, \$355,110,566 is from the Advance Funding program.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

(6) Employee Benefits

The Bond Bank contributes to the Public Employees' Retirement Fund (PERF) of the State of Indiana, an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for State of Indiana employees and employees of the various subdivisions and instrumentalities of the State of Indiana. All employees of the Bond Bank participate in this plan. The Public Employees' Retirement Fund of the State of Indiana issues a publicly available financial report that includes financial statements and required supplementary information for the Bond Bank's plan. That report may be obtained by writing to Public Employees' Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204.

The plan is a contributory defined benefit plan. PERF retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled PERF members to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. An employee may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the employee's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions are met, an employee may retire with 100% of the defined pension at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years of PERF-covered employment. The average annual salary used for calculating the pension benefit is an average of the employee's highest five years of employment earnings. Employees who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit ranging from 44.0% to 98.8% of the pension benefit described above.

Employer contributions for the years ended June 30, 2008 and 2007 were \$14,663 and \$12,135, respectively. Covered payroll for the same periods amounted to \$232,746 and \$220,633, respectively. Separate information concerning the accumulated benefit obligation and actuarially determined benefit obligation is not material to the financial position of the Bond Bank and, accordingly, is not presented.

In addition, the employees contribute 3% of compensation to an annuity savings account. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system-wide fund for all members. Upon retirement, members may elect a lump-sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive their balance in the savings account.

INDIANA BOND BANK
(A Component Unit of the State of Indiana)

Notes to Financial Statements

June 30, 2008 and 2007

(7) Operating Leases

The Bond Bank leases office space as well as office equipment under non-cancelable leases with terms in excess of one year. The following is a schedule of the future minimum rentals under the leases as of June 30, 2008:

	<u>Payments</u>
Year ending June 30:	
2009	\$ 56,424
2010	50,684
2011	<u>24,768</u>
Total	\$ <u>131,876</u>

In addition to the minimum lease payments, the Bond Bank is required to pay insurance, taxes and a proportional share of operating costs in excess of a basic level for the office space. The aggregate rental expense charged to operations was \$47,903 and \$53,969 for 2008 and 2007, respectively.

(8) Subsequent Events

The following issues have been closed since June 30, 2008: Advance Funding Midyear Series B of \$19,255,000, Advance Funding Midyear Series C of \$53,095,000, and the Special 2008 B Carmel Waterworks Revenue Bonds of \$84,317,740.

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Supplemental Schedule of Net Assets Information by Program Type

June 30, 2008

Assets	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Eliminations	Total
Current assets:								
Cash and cash equivalents	\$ 5,603,259	\$ 6,615,884	\$ 13,472,092	\$ 1,672,911	\$ 32,233,306	\$ 158,985	\$ —	\$ 59,756,437
Qualified obligations receivable	18,574,400	976,113,721	—	17,987,062	43,539,018	12,475,000	—	1,068,689,201
Accrued interest receivable	7,021,387	5,857,121	—	3,467,223	10,395,362	2,808,202	—	29,549,295
Interfund receivables	19,628	—	281,052	—	—	—	(300,680)	—
Total current assets	<u>31,218,674</u>	<u>988,586,726</u>	<u>13,753,144</u>	<u>23,127,196</u>	<u>86,167,686</u>	<u>15,442,187</u>	<u>(300,680)</u>	<u>1,157,994,933</u>
Noncurrent assets:								
Investments, at fair value	13,783,043	3,128,495	—	1,084,472	175,389	24,159,925	—	42,331,324
Qualified obligations receivable	432,175,910	—	—	132,482,000	872,662,810	298,994,050	—	1,736,314,770
Deferred debt issuance costs, net	8,132,333	1,094,531	—	1,175,778	9,149,343	3,169,205	—	22,721,190
Total noncurrent assets	<u>454,091,286</u>	<u>4,223,026</u>	<u>—</u>	<u>134,742,250</u>	<u>881,987,542</u>	<u>326,323,180</u>	<u>—</u>	<u>1,801,367,284</u>
Total assets	<u>485,309,960</u>	<u>992,809,752</u>	<u>13,753,144</u>	<u>157,869,446</u>	<u>968,155,228</u>	<u>341,765,367</u>	<u>(300,680)</u>	<u>2,959,362,217</u>
Liabilities								
Current liabilities:								
Bonds and notes payable	20,645,000	977,685,000	—	17,535,000	61,150,000	12,475,000	—	1,089,490,000
Accrued interest payable	8,467,360	7,196,571	—	3,075,725	22,622,395	2,808,204	—	44,170,255
Funds held for qualified entities	—	—	—	—	—	24,159,925	—	24,159,925
Accounts payable	255,500	—	83,127	11,300	343,365	53,900	—	747,192
Interfund payables	300,680	—	—	—	—	—	(300,680)	—
Total current liabilities	<u>29,668,540</u>	<u>984,881,571</u>	<u>83,127</u>	<u>20,622,025</u>	<u>84,115,760</u>	<u>39,497,029</u>	<u>(300,680)</u>	<u>1,158,567,372</u>
Noncurrent liabilities:								
Bonds and notes payable, net of current portion	454,774,363	7,216,804	—	137,394,541	883,471,800	302,257,652	—	1,785,115,160
Deferred revenues	12,606	—	481,737	—	—	—	—	494,343
Total noncurrent liabilities	<u>454,786,969</u>	<u>7,216,804</u>	<u>481,737</u>	<u>137,394,541</u>	<u>883,471,800</u>	<u>302,257,652</u>	<u>—</u>	<u>1,785,609,503</u>
Total liabilities	<u>484,455,509</u>	<u>992,098,375</u>	<u>564,864</u>	<u>158,016,566</u>	<u>967,587,560</u>	<u>341,754,681</u>	<u>(300,680)</u>	<u>2,944,176,875</u>
Net Assets								
Restricted for debt service	854,451	711,377	—	(147,120)	567,668	10,686	—	1,997,062
Unrestricted	—	—	13,188,280	—	—	—	—	13,188,280
Total net assets	<u>\$ 854,451</u>	<u>\$ 711,377</u>	<u>\$ 13,188,280</u>	<u>\$ (147,120)</u>	<u>\$ 567,668</u>	<u>\$ 10,686</u>	<u>\$ —</u>	<u>\$ 15,185,342</u>

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Supplemental Schedule of Net Assets Information by Program Type

June 30, 2007

Assets	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Eliminations	Total
Current assets:								
Cash and cash equivalents	\$ 5,812,624	\$ 14,412,951	\$ 11,908,106	\$ 1,442,250	\$ 32,480,088	\$ —	\$ —	\$ 66,056,019
Qualified obligations receivable	17,528,500	712,117,307	—	18,877,749	39,008,965	—	—	787,532,521
Accrued interest receivable	6,178,669	7,179,441	—	3,815,096	13,727,602	—	—	30,900,808
Interfund receivables	19,628	—	281,052	—	—	—	(300,680)	—
Total current assets	<u>29,539,421</u>	<u>733,709,699</u>	<u>12,189,158</u>	<u>24,135,095</u>	<u>85,216,655</u>	<u>—</u>	<u>(300,680)</u>	<u>884,489,348</u>
Noncurrent assets:								
Investments, at fair value	15,291,270	5,312,373	—	1,186,907	149,724	—	—	21,940,274
Qualified obligations receivable	455,117,747	—	—	151,297,779	931,482,276	—	—	1,537,897,802
Deferred debt issuance costs, net	8,851,121	819,269	—	1,475,359	10,503,130	—	—	21,648,879
Total noncurrent assets	<u>479,260,138</u>	<u>6,131,642</u>	<u>—</u>	<u>153,960,045</u>	<u>942,135,130</u>	<u>—</u>	<u>—</u>	<u>1,581,486,955</u>
Total assets	<u>508,799,559</u>	<u>739,841,341</u>	<u>12,189,158</u>	<u>178,095,140</u>	<u>1,027,351,785</u>	<u>—</u>	<u>(300,680)</u>	<u>2,465,976,303</u>
Liabilities								
Current liabilities:								
Bonds and notes payable	20,620,386	730,337,423	—	19,918,979	58,477,781	—	—	829,354,569
Accrued interest payable	7,883,861	8,122,862	—	3,320,237	23,557,965	—	—	42,884,925
Accounts payable	321,100	—	74,467	73,500	—	—	—	469,067
Interfund payables	300,680	—	—	—	—	—	(300,680)	—
Total current liabilities	<u>29,126,027</u>	<u>738,460,285</u>	<u>74,467</u>	<u>23,312,716</u>	<u>82,035,746</u>	<u>—</u>	<u>(300,680)</u>	<u>872,708,561</u>
Noncurrent liabilities:								
Bonds and notes payable, net of current portion	478,922,997	—	—	154,929,544	944,621,800	—	—	1,578,474,341
Deferred revenues	11,879	—	481,737	—	—	—	—	493,616
Total noncurrent liabilities	<u>478,934,876</u>	<u>—</u>	<u>481,737</u>	<u>154,929,544</u>	<u>944,621,800</u>	<u>—</u>	<u>—</u>	<u>1,578,967,957</u>
Total liabilities	<u>508,060,903</u>	<u>738,460,285</u>	<u>556,204</u>	<u>178,242,260</u>	<u>1,026,657,546</u>	<u>—</u>	<u>(300,680)</u>	<u>2,451,676,518</u>
Net Assets								
Restricted for debt service	738,656	1,381,056	—	(147,120)	694,239	—	—	2,666,831
Unrestricted	—	—	11,632,954	—	—	—	—	11,632,954
Total net assets	<u>\$ 738,656</u>	<u>\$ 1,381,056</u>	<u>\$ 11,632,954</u>	<u>\$ (147,120)</u>	<u>\$ 694,239</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,299,785</u>

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Supplemental Schedule of Revenues and Expenses Information by Program Type

Year Ended June 30, 2008

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Total
Operating revenues:							
Interest income	\$ 25,629,866	\$ 32,621,528	—	\$ 6,500,654	\$ 51,118,903	\$ 12,860,255	\$ 128,731,206
Acceptance and administration fees	—	—	260,687	—	—	—	260,687
Total operating revenues	25,629,866	32,621,528	260,687	6,500,654	51,118,903	12,860,255	128,991,893
Operating expenses:							
Interest	24,345,922	28,888,336	—	6,161,736	49,859,665	12,396,689	121,652,348
Amortization of debt issuance costs	1,035,461	1,783,648	—	300,631	1,353,785	396,979	4,870,504
General and administrative	132,688	1,224,181	716,152	38,287	32,024	55,901	2,199,233
Total operating expenses	25,514,071	31,896,165	716,152	6,500,654	51,245,474	12,849,569	128,722,085
Operating income (loss)	115,795	725,363	(455,465)	—	(126,571)	10,686	269,808
Nonoperating revenues							
Interest income on investments	—	—	615,749	—	—	—	615,749
Change in net assets before transfers	115,795	725,363	160,284	—	(126,571)	10,686	885,557
Transfers	—	(1,395,042)	1,395,042	—	—	—	—
Change in net assets	\$ 115,795	\$ (669,679)	\$ 1,555,326	\$ —	\$ (126,571)	\$ 10,686	\$ 885,557

Indiana Bond Bank
(A Component Unit of the State of Indiana)

Supplemental Schedule of Revenues and Expenses Information by Program Type

Year Ended June 30, 2007

	Special Program	Advance Funding Program	Operating Program	Common School Fund Program	School Severance Program	Prepaid Gas Program	Total
Operating revenues:							
Interest income	\$ 24,050,211	\$ 18,212,236	\$ —	\$ 7,390,921	\$ 54,029,023	\$ —	\$ 103,682,391
Acceptance and administration fees	—	—	360,576	—	—	—	360,576
Total operating revenues	24,050,211	18,212,236	360,576	7,390,921	54,029,023	—	104,042,967
Operating expenses:							
Interest	22,648,640	16,677,296	—	7,094,730	52,040,540	—	98,461,206
Amortization of debt issuance costs	1,078,598	1,063,534	—	341,738	1,443,558	—	3,927,428
General and administrative	348,898	34,911	1,129,912	27,653	40,373	—	1,581,747
Total operating expenses	24,076,136	17,775,741	1,129,912	7,464,121	53,524,471	—	103,970,381
Operating income (loss)	(25,925)	436,495	(769,336)	(73,200)	504,552	—	72,586
Nonoperating revenues							
Interest income on investments	—	—	546,982	—	—	—	546,982
Change in net assets before transfers	(25,925)	436,495	(222,354)	(73,200)	504,552	—	619,568
Transfers	—	(297,195)	297,195	—	—	—	—
Change in net assets	(25,925)	139,300	74,841	(73,200)	504,552	—	619,568